

Money Market Outlook: Our latest for the eurozone, US and UK

Here, we go deep into the weeds of the eurozone, US, and UK money markets, and we detail what we view as the key themes ahead

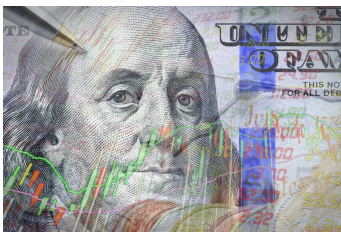
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By Michiel Tukker

Article | 19 August 2025

Eurozone Money Markets: ECB cuts come to an end but the balance sheet shrinks further

The European Central Bank (ECB) easing cycle could end soon, which has helped bring down volatility of some money market spreads. The balance sheet continues to shrink, and while still a long process, the future will likely hold more upside pressure for longer-term money market funding spreads



Excess reserves inch lower but ECB liquidity operations see little pickup

ECB outlook: one more cut could still come

The ECB kept rates on hold in July, and markets are no longer fully pricing another cut from the ECB in this cycle. At the peak, the curve prices less than 20bp of easing – but only next year.

Our economists note that the US-EU deal is far from ideal, but it does provide a degree of stability for the time being. They do not expect an economic contraction in the second half of 2025 and have slightly upgraded their growth forecast for this year and next. While this has complicated the call for one further ECB rate cut in September, falling inflation still narrowly argues in favour of one more move, delivered before the fiscal impulse out of Germany gains traction.

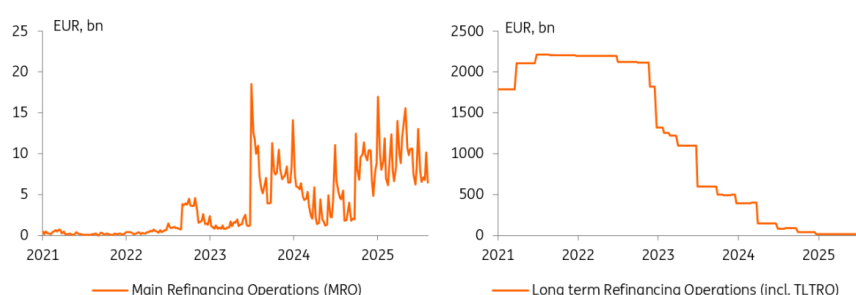
Excess reserves inch lower but ECB liquidity operations see little pickup

Excess liquidity in the banking system continues to trend lower and now stands at just above €2.6tr. There has been no material increase in banks' recourse to the ECB's liquidity operations. The weekly main refinancing operations (MRO) come in around €6bn to €10bn and the 3m long-term refinancing operations (LTRO) at below €13bn in total; amounts that are still negligible relative to the overall amount of excess liquidity.

It is still relatively more attractive to borrow in the market, and the last ECB survey of monetary analysts conducted ahead of the July meeting does not indicate the situation will change anytime soon. Banks expect the MRO take-up to have increased to €30bn and the LTRO to €50bn by the end of next year. Taking into account the bond portfolio projections, excess liquidity would have just fallen below €2tr. This is assuming constant autonomous liquidity factors that can also influence banks' liquidity needs.

That said, the Eurosystem estimates that excess liquidity will have fallen to €1.5tr by the end of 2027. This is where many market observers expect excess liquidity levels to stabilise in the long run. Since the ECB's bond portfolios would continue to shrink at that point, the idea is that regular liquidity operations would start to see more pickup to offset that effect. Then, at some point, the ECB would introduce structural liquidity operations.

No sign of greater demand for ECB liquidity



Source: ECB, ING

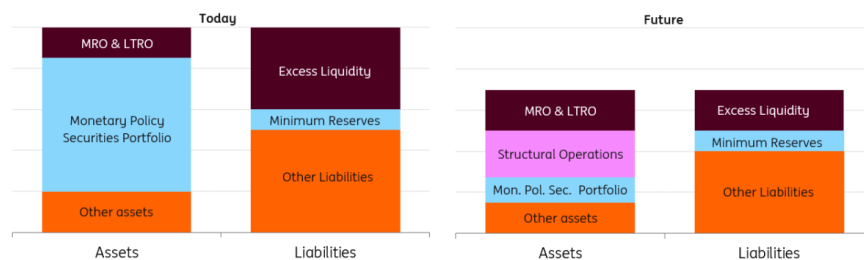
The future of the ECB balance sheet according to the Bundesbank

In its June monthly report, the Bundesbank outlined some of its thinking around the future composition of the ECB's balance sheet. Remember that the ECB's March 2024 review of the operational framework outlined the transition to a system where the level of excess liquidity is determined by banks' demand.

The Bundesbank suggests that after an increase in regular open market operations, the ECB should first introduce structural refinancing operations. These would be variable-rate tenders with limited allotment volumes, rather than today's fixed-rate full allotment tenders. Only at a later stage would a structural bond portfolio be introduced. The thinking is that the structural operations largely cover bank liquidity needs stemming from autonomous factors and minimum reserve requirements, while the regular operations would cover banks' demand for excess liquidity. The

upshot from this operational design is that the ECB would provide only a softer cap on term liquidity beyond three months.

Current and future stylised ECB balance sheet



Source: Bundesbank June Monthly Report, ING

Drivers of liquidity demand and the recourse to ECB liquidity operations will be banks' individual business models and financing costs. Regulatory factors such as liquidity regulation will also determine the relative attractiveness of the ECB operations.

And with a view to regulation determining demand, the latest data for the first quarter of 2025 by the ECB shows that banks have reduced their aggregate Liquidity Coverage Ratio (LCR) ratio from 158% to 156.25%. While this was down more to rising net outflows, with liquidity buffers even increasing, it could signal some openness by banks to normalise their LCR levels from currently still-elevated levels. Separately, more granular data from the European Banking Authority on the composition of liquidity buffers shows that the share of central bank reserves remains on a declining trend, making up 47.3% in the first quarter (-0.4 percentage points).

Recall that LCR levels had been inflated by the ECB's injection of excess reserves into the banking system. But as excess reserves began to decline again, banks had initially chosen to maintain the higher LCR levels and replaced the central bank cash in their buffers with other high-quality liquid assets.

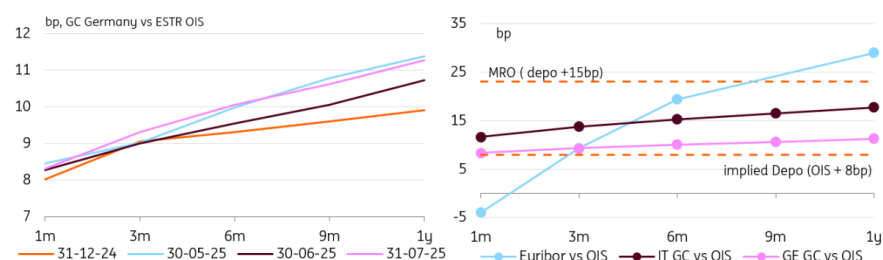
All things equal, a prospective decline in LCR ratios could lower the stable level of excess reserves that the banking system operates in the future and thus push back the timeline for a pickup in (structural) liquidity operations. We would still expect the ECB to outline its designs in more detail after the review it has flagged for 2026.

Repo markets stabilise and prices slightly above the implied deposit facility rate

Repo market volumes underpinning the Stoxx GC pooling overnight repo indices have receded from their peaks as rate levels fluctuate around the ECB's deposit facility rate.

The German as well as the Italian GC government collateral curves versus (Overnight Index Swap) OIS were slightly steeper at the end of July, but not at their steepest levels for the year. Germany had seen its steepest month-end in May.

Market funding options still cheaper than the ECB



Source: ING

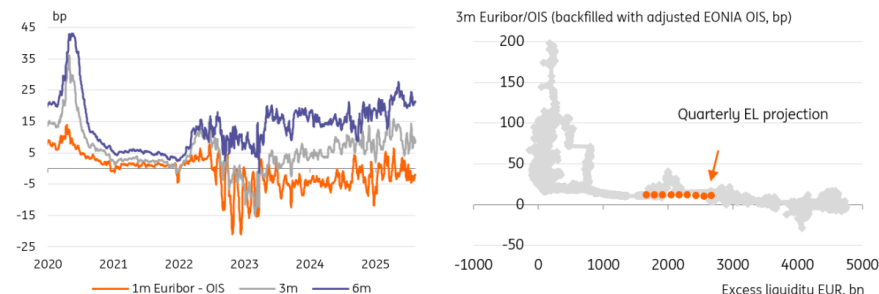
Unsecured funding remains more attractive than ECB operations

Short-dated unsecured rates remain below the ECB deposit facility rate, although the overnight Euro Short-Term Rate (ESTR) is showing a subtle upward trend now averaging slightly less than 8bp below the depo rate. 1m Euribor is more consistently below the 1m ESTR OIS rate by around 3bp on average, lower than the virtually flat average over the first half of the year. That higher level seemed more down to a lag effect of the Euribor rate that is now less relevant since the ECB has paused cutting rates.

The spread of 3m Euribor over ESTR OIS has become somewhat more volatile even as the ECB has paused, but it is still the OIS-leg of the spread that drives fluctuations with Euribor more stable. The spread averaged around 9bp since the end of June, with market pricing seeing this spread widening only marginally over the next year to 12-13bp. This market view has remained relatively stable and reflects expectations that the gradual decline of excess reserves will have a limited impact in the near to medium term.

The longer 6m Euribor rates have occasionally spiked above the implied MRO rate (at around 23bp $MRO/ESTR = 8bp\ Depo/ESTR + 15bp\ MRO/Depo$), but now mostly settle just below at around 21bp above $ESTR/OIS$, indicating that the ECB operations do offer a soft cap to the market pricing. The 2y IRS/OIS basis has largely remained in the 23bp to 25bp area over the past quarter.

Euribor-OIS spreads with structural upwards pressure is still seen as some time away



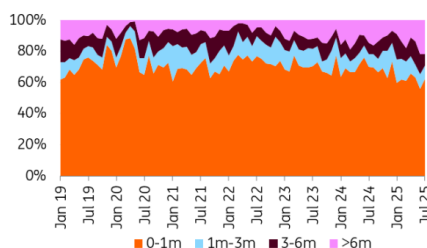
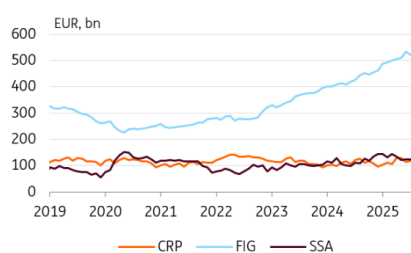
Source: Refinitiv, ING

ECB data on EUR unsecured short-term funding by euro area banks shows an increase over May

and June to €377bn, the highest outstanding amount since the start of the data set in 2021. To a large extent, the EUR increase reflects a shift away from short-term funding via foreign currencies.

A look at the outstanding EUR commercial paper by the broader financial sector shows a more steady increase and continuation of a trend that accelerated already in 2023. From a low of €224bn in 2020, the outstanding CP volume has almost doubled to €530bn by the end of June with only a small drop to €520bn over July. The backdrop for the longer trend was the maturities of the ECB TLTROs, the last of which matured last December. The trend to increased CP financing has continued and what the past half-year has shown within this trend was an increasing reliance on longer-dated CP issuance.

Banks funding via commercial paper and deposits still trends higher



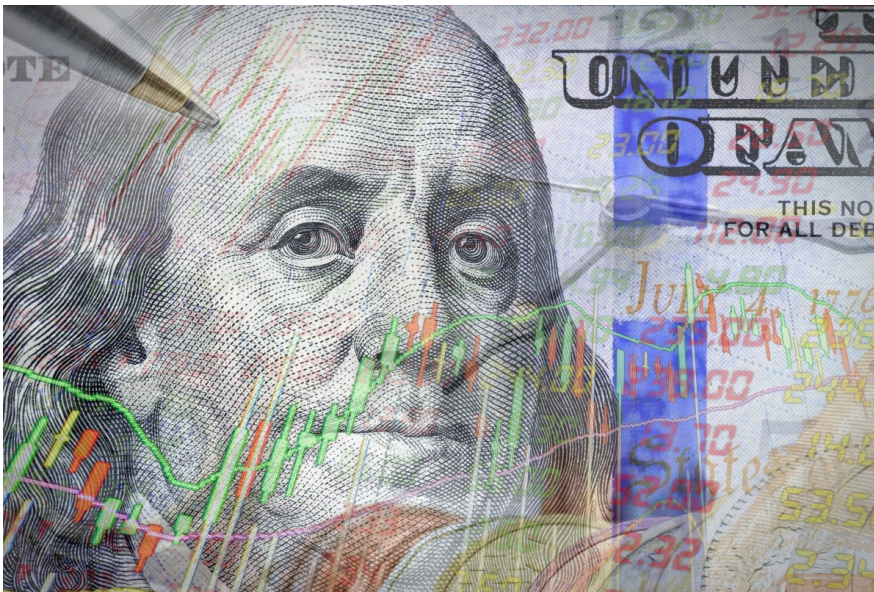
Source: CMD, ING

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US Money Markets: Stability in bank reserves, but changes are coming

Liquidity circumstances are ample currently, but bank reserves are primed to fall in the coming months, likely re-tightening conditions. There is value in market repo versus the Fed's reverse repo facility, and bills issuance remains strong, causing a cheapening there. Terming means taking lower rates, but concessional versus where rates will get to



Government Funds have seen a renewed rise in holdings of Treasury Debt

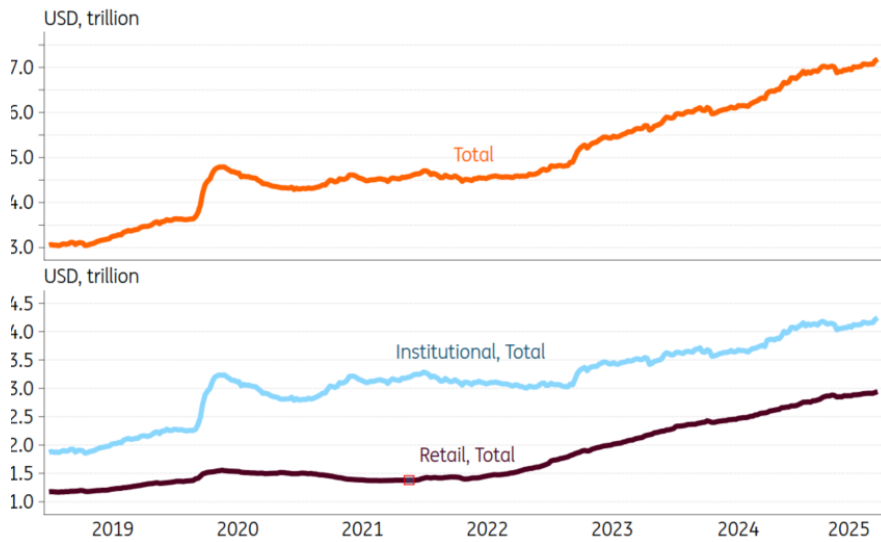
Money market funds continue to attract strong inflows, holding at some 23% of GDP

Inflows to money market funds picked up again following a brief hiccup, where some liquidations were seen around 'Liberation Day'. Institutional demand remains most robust for Government Funds, while the biggest growth in Retail holdings is in Prime Funds. Institutional demand for Prime Funds remains lacklustre, mostly due to a lack of spread improvement on moving away from Government Funds.

As a percentage of GDP, money market funds remain comfortably over 23%, not far off the prior high of 27% in 2009. So far, the rate-cut talk is just that, and money market funds continue to

churn out reasonable returns on a 'zero risk' product.

Money Market Funds - Institutional vs Retail

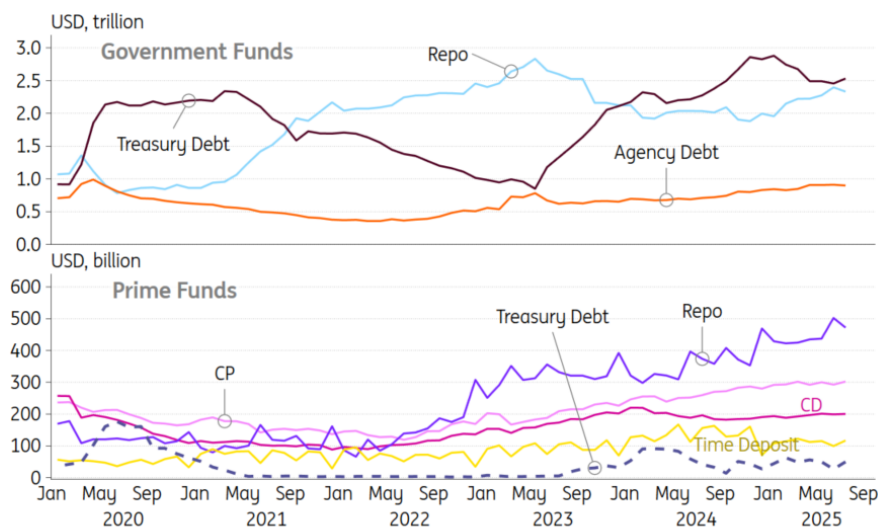


Source: ING, Macrobond

Government Funds have seen a renewed rise in holdings of Treasury Debt (effectively bills). Extra bills issuance is being employed to take pressure off coupon issuance and to build up the cash balance at the Treasury after the rise in the debt ceiling, as a part of the wider 'Big Beautiful Bill'. This should help to maintain a concession in bills. Expect Repo to be downsized relative to Bills in the immediate few months as a result.

In Prime Funds, Repo (reflecting equity repo) exposures remain elevated. Exposure to commercial paper (CP) has been gradually rising, while certificates of deposit (CD) and ordinary deposits have been steadier to a tad lower. The oomph in Prime is in Repo and CP.

Money Market Funds - Breakout of investments



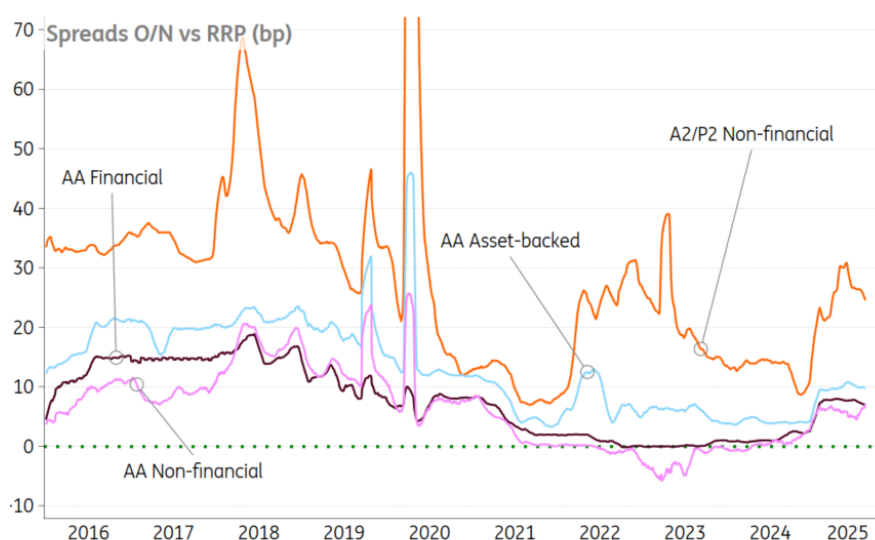
Source: ING, Macrobond

The Fed's reverse repo facility remains a poor alternative to market repo and bills

In terms of attainable rates, the entire spectrum of overnight commercial paper rates remains comfortably above the Federal Reserve's reverse repo rate, in part a reflection of the 5bp move down to the funds rate floor since the December FOMC meeting. This reduces the attractiveness of the Fed's reverse repo facility and continues to increase the relative attractiveness of market repo.

At the same time, CP spreads are not yet quite as wide as they were during the pre-pandemic years, but they are edging towards these types of levels, as shown in the chart below. A larger concession has been built into A2/P2 rates, but no more than the fair valuation of risk.

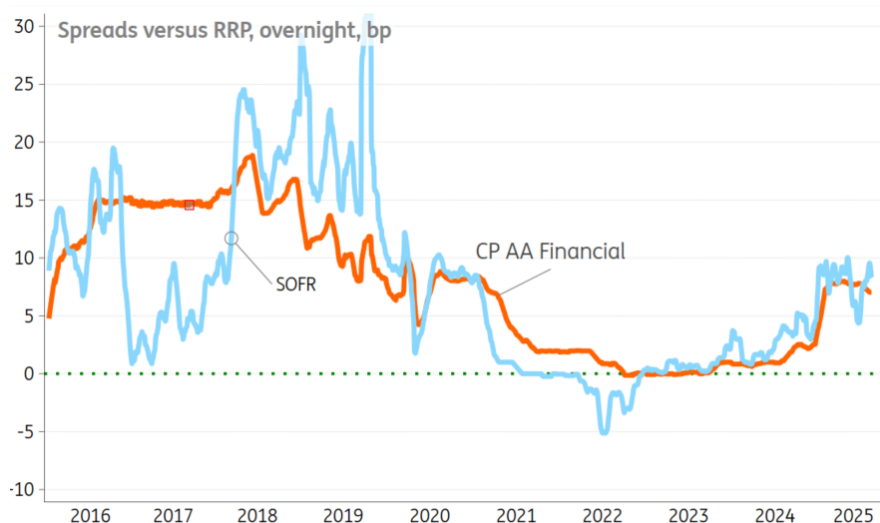
Commercial paper versus the Fed's reverse repo rate



Source: ING, Macrobond

The relevance of the Fed's reverse repo facility has been downsized significantly from a relative value perspective, as better repo terms are now typically attainable on the market. The reverse repo window will continue to be accessed primarily around quarter (and month) ends, as counterparties turn to the Fed's facility to bridge liquidity gaps driven by regulatory window dressing requirements.

General collateral versus the Fed reverse repo facility, and financial CP

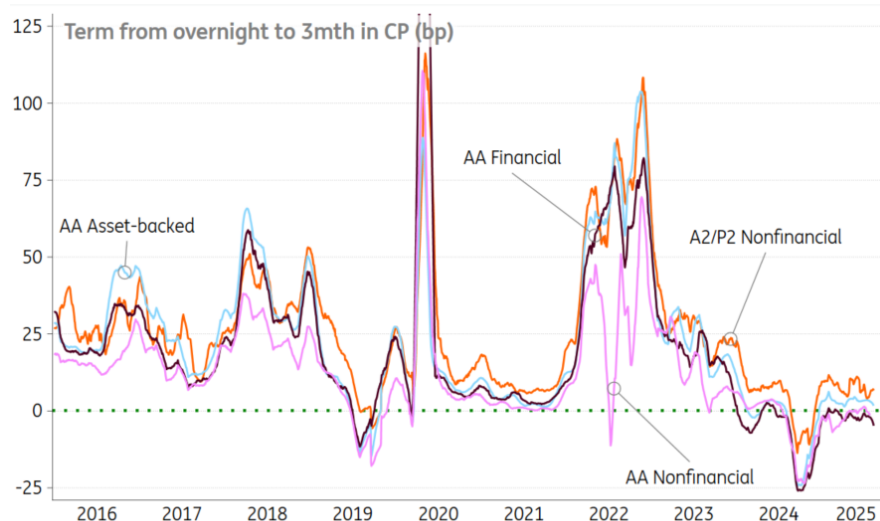


Source: ING, Macrobond

With the Fed expected to cut, terming out comes with lower rates, but still at decent forward levels

With the Fed still technically in rate-cutting mode, terming out comes with an absolute rate concession. But there is still value in terming out as a means of locking in currently attainable rate levels, which tend to under-represent the full extent of likely cuts on a 12-month horizon. We expect the Fed to cut by 125bp in the coming 6-12 months.

Overnight to 3-month term in commercial paper



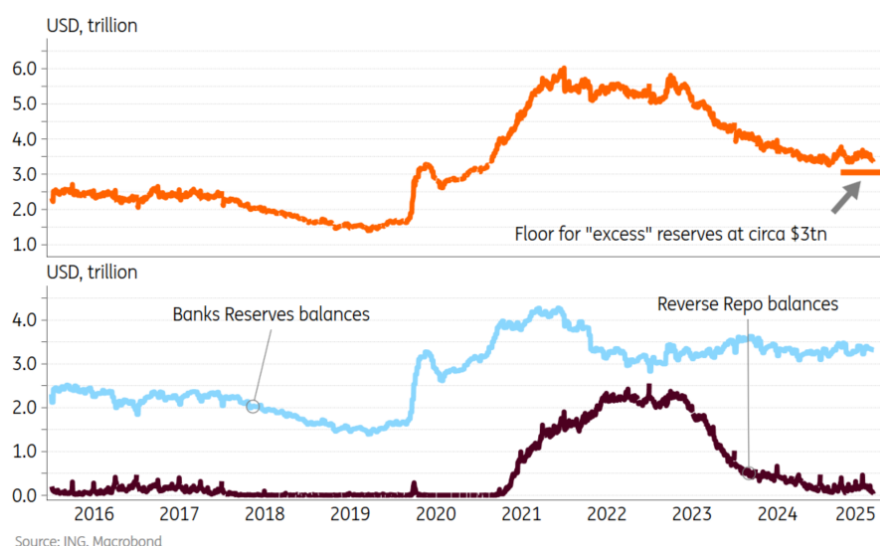
Source: ING, Macrobond

Bank reserves remain comfortable, but will come under falling pressure as the US Treasury continues to rebuild its cash balance

Currently, bank reserves are running at some \$3.33tr. Adding the cushion of just under \$50bn at the Fed's reverse repo facility, there is an overall 'excess' liquidity balance of some \$3.4tr. Meanwhile, quantitative tightening (QT) is running at around \$20bn per month (the \$35bn cap on mortgage-backed securities roll-offs is never hit) and acts to reduce excess liquidity at that pace. Based on this, within the coming half year, the \$3tr bank reserves floor will be hit.

The Fed needs to be careful here, as in 2019, the QT process pushed bank reserves down to the \$1.5 trillion area, which caused some severe tightness. Back then, the value of US GDP was around \$20tr. So, bank reserves hit around 7.5% of GDP. The thinking moving forward is that this needs to be closer to 10% of GDP. With the value of US GDP running at around \$30tr, that implies a floor for bank reserves at around \$3tr.

Bank reserves still ample, but will ultimately slip to \$3tr this year



Currently, the Treasury has a cash balance of around \$550bn. And it is likely to push this up by at least another \$100bn – and possibly \$200bn (through bills issuance). The extent to which it does will cause a reduction in other types of liquidity, most probably through a fall in excess reserves.

SLR adjustments in the coming months need to be monitored too

As an important aside, proposed changes to the Supplementary Leverage Ratio (SLR) for big US banks can add to bank demand for Treasuries and Repo. That said, banks won't rush to buy. A skew on balance sheets is more likely to be gradual. Banks are lenders first, and credit hasn't been notably constrained, especially with high reserves.

Is this impactful for Treasuries? For sure, if up-front inflows dominate. But a more gradual application would be less impactful. Still, it's a positive impulse. Just as the backing of stablecoins with Treasury bills is a positive for bills demand in the medium term, it also has a potential multi-trillion-dollar demand effect. Again, a positive. But this will only have a meaningful impact if accelerated, as supply is increasing significantly too.

It can also impact the weighting between bank cash reserves and their holdings of Treasuries. We'll continue to monitor this important space.

See more [here](#).

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UK Money Markets: Slower QT will support GBP liquidity conditions

Sterling liquidity conditions have remained broadly stable since the start of this year. A likely slowdown of QT and a strong uptake of liquidity facilities limit the draining of bank reserves. Money market instruments with maturities of less than one month are in high demand due to investment mandates and regulatory frameworks, pushing rates down



We still see the Bank of England cutting rates once more this year, although investors have turned more sceptical

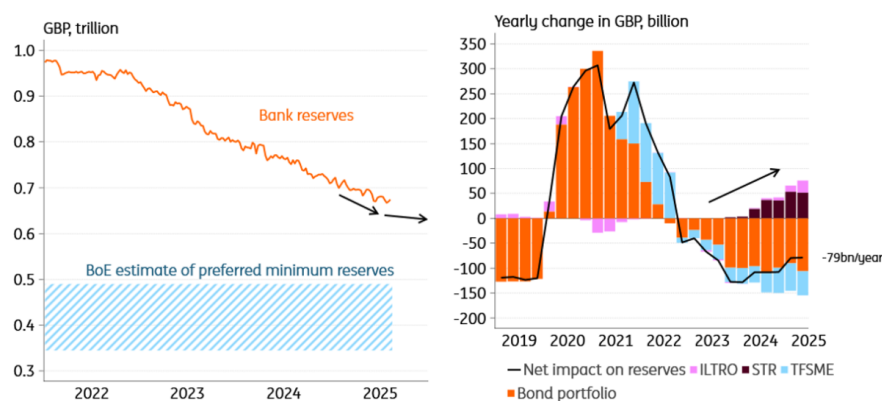
Path to policy normalisation continues but possibly at a slower pace

We still see the Bank of England (BoE) cutting rates once more this year, although investors have turned more sceptical. The market implied probability for another cut by the end of this year has dropped to around 50% on the back of sticky inflation numbers and relatively good economic data. But the BoE landing zone is still priced at 3.5%, which means the money market curve offers a decent yield pickup for shorter maturities. From a strategy perspective, however, we prefer to position further out on the curve as we see scope for easing to 3.25%, below market expectations.

In the September meeting, the BoE will also decide on the pace of quantitative tightening (QT) going forward, which could have implications for liquidity conditions. Interestingly, the likely decision to lower the pace of the gilt portfolio unwind from the current £100bn per year seems more driven by the recent moves in longer-dated gilt yields rather than tighter liquidity. The 30Y gilt yield is already at new records and with (global) fiscal pressures pushing yields higher, the BoE wants to prevent excessive stress in the gilt market.

If the Bank of England reduces the pace of the unwind of the bond portfolio, then liquidity should remain ample for even longer. Whilst QT is draining bank reserves, the repo liquidity facilities, STR and ILTRO, are adding reserves to the system. In fact, over the past year, these two facilities added around £70bn of reserves, offsetting a significant portion of the QT impact. This should keep money markets in a relatively good place in terms of liquidity supply.

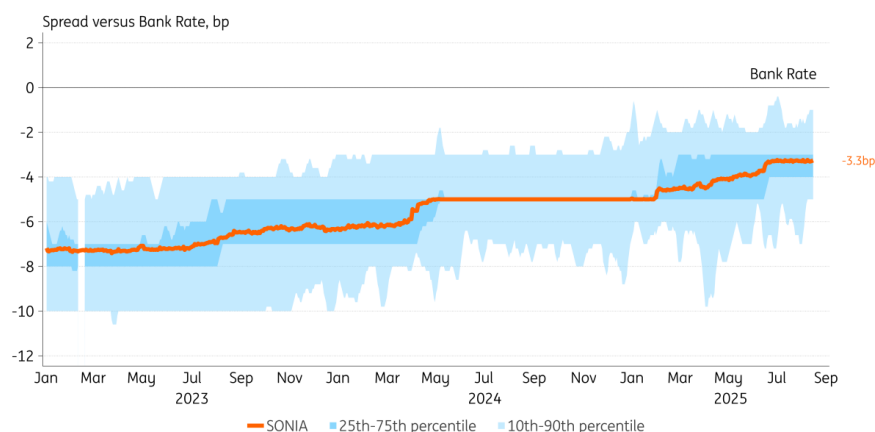
Slower QT and liquidity facilities limit drain of reserves



Source: ING, Bank of England, Macrobond

Having said that, as bank reserves are declining, we're still seeing subtle signs of tightening liquidity conditions, but we may be closing in on a more steady state. SONIA is now at 3bp below the Bank Rate and can probably stay there for some time. As we pointed out above, the draining of bank reserves may follow a slower path going forward. This should put less upward pressure on the price paid by banks to attract deposits.

Banks pay slightly more to attract deposits as reserves are drained



Source: ING, Bank of England, Macrobond

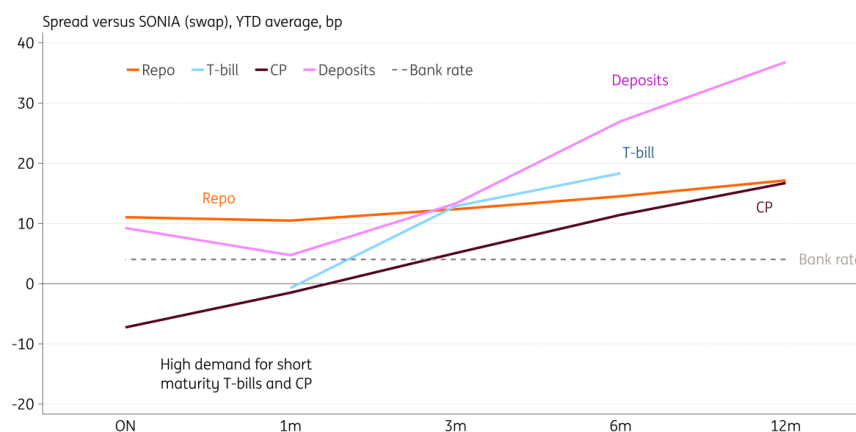
Relatively low returns on shortest maturities due to strong demand

When looking at the broader universe of money market instruments, we don't see many signs of tightening since the beginning of this year. The spreads on treasury bills and commercial paper (CP) have remained fairly rangebound. An interesting observation remains the structurally strong demand for T-bills and CP with a maturity of one month or less. The demand for these pushes those rates below the SONIA swap curve.

Certain investors have a strong preference for very short maturity instruments, which distorts the price for these short assets. For example, some central banks are mandated to only buy GBP money market instruments with a maturity of one month or shorter. Similarly, some corporate treasurers can only invest up to three-month maturities. From a risk-reward perspective, investing in repo markets could be more attractive, but some players are not mandated to do so or are not operationally ready.

Further out on the money market curve, we see wider spreads for deposits. Whereas repo is a form of secured borrowing and lending, deposits are unsecured and therefore should in theory bear higher rates. This is the case for longer maturities, but not for those of less than 30 days. Deposits with a maturity of 30 days or less negatively impact banks' Liquidity Coverage Ratio and are therefore not as attractive as longer tenors, driving the rates down.

Investment mandates increase the demand for short-term instruments



Source: ING, Bank of England, Macrobond

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